



CHAPTER ONE INDUSTRY OVERVIEW

This chapter provides the reader with an historical overview of New Zealand's kiwifruit industry, which explains the major events throughout the past century that shaped the kiwifruit industry into what it is today.

Section 1.7 looks at the current industry structure and the key organisations within, and **Section 1.8** examines New Zealand's unique growing environment and recent performance statistics from the 2018/19 period.

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1.1 INDUSTRY OVERVIEW

Kiwifruit seeds were first brought into New Zealand from China in 1904 by Isabel Fraser who was a Teacher hailing from Whanganui. At the time, kiwifruit was known by its Chinese name Yang Tao and English names Chinese Gooseberry and Monkey Peach.

In 1927, New Zealander Hayward Wright bred a cultivar of kiwifruit known as 'Hayward'. By the 1960's, 'Hayward' became the standard cultivar of exported kiwifruit around the world and now makes up 90% of the world production of kiwifruit.

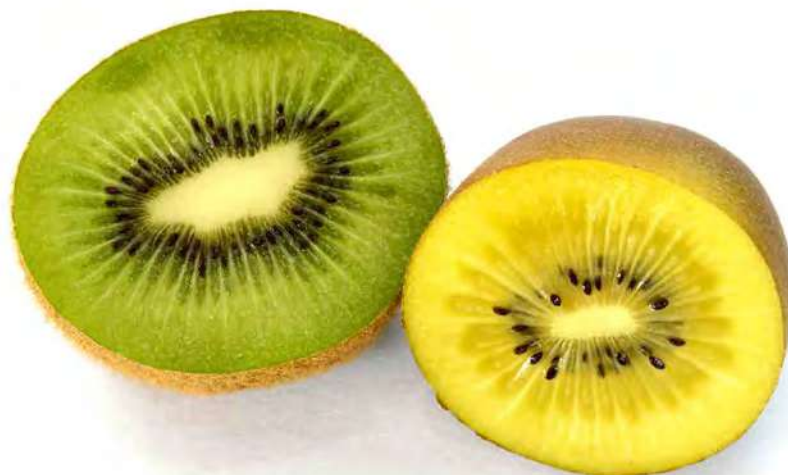


Right:
Isabel Fraser



Far right:
Hayward Wright

“ At the time, kiwifruit was known by its Chinese name Yang Tao and English names Chinese Gooseberry and Monkey Peach. ”



1.2 1960 - 1980

The kiwifruit industry in New Zealand is youthful in comparison to many other primary industries. Its real commercial beginnings sit in the 1960s. The first industry body, the Kiwifruit Export Promotion Committee, was formed in 1970. This led to the New Zealand Kiwifruit Authority (NZKA), which was established in October 1977.

The structure of NZKA was very different to what exists today with its role being to licence exporters, such as Turners and Growers, the New Zealand Fruitgrowers' Federation and Auckland Export and at its peak had up to seven exporters licenced.

As well as licensing, the NZKA co-ordinated packaging and had authority over export grade standards and promotion, but it had no control over sales and marketing activities.

Right & below:
The first commercial
exports of kiwifruit
showing the packaging and
advertisements of the era



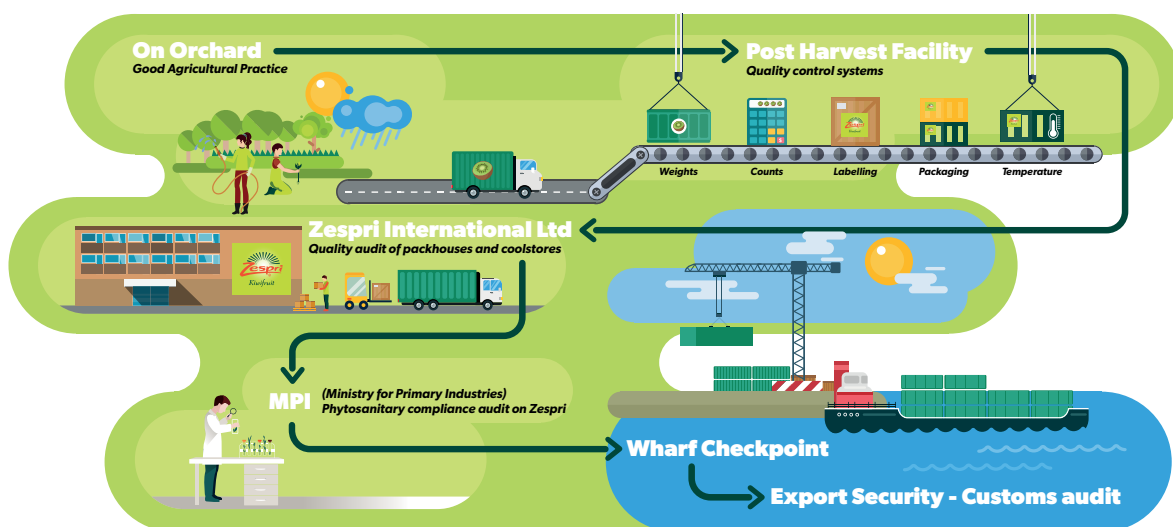
1.3 1980 - 1990

From the mid-1980s production was booming. In 1981 for example, 22,000 tonnes of kiwifruit were exported. By 1987, that had risen to 203,000 tonnes. Over the same period the return to growers per tray had dropped from \$7.84 in 1981 to \$3.00 in 1987. This resulted in 91 percent of growers making a loss from their kiwifruit operations. A dramatic rise in the New Zealand dollar (NZD) in 1987, followed by inflation reducing policies by the Reserve Bank of New Zealand (RBNZ), led to interest rates reaching their peak at 20.5% in June 1987.

Over-production along with the rise of the NZD made the price of New Zealand kiwifruit expensive in overseas markets and therefore reduced demand. The lack of returns combined with kiwifruit land values falling led to an equity crisis for many growers. This was the turning point that started the debate about the advantages of having one exporter (known today as Single Point of Entry or SPE) over multiple exporters.

In 1987, because of heated debate on the topic, the NZKA engaged a consultant's report. A referendum was then held in September 1988. The industry's set target was to get 80% grower support for the SPE. The fall in export prices and the undercutting between the seven kiwifruit exporters were key arguments in favour of the creation of the SPE. In the end, 84% of growers supported the creation of the Kiwifruit Marketing Board with statutory powers to buy all kiwifruit that was to be exported. The New Zealand Kiwifruit Marketing Board (NZKMB) came into being and its first season of operation was 1989/90. This ended the multi-exporter regime and replaced it with the single desk marketing structure that the kiwifruit industry has today. This foresight has allowed New Zealand kiwifruit growers to collectively develop their industry into a global business with concerted investment in branding, marketing, quality, and research and development.

Below:
The Zespri System showing how the single point of entry simplifies the exportation process





1.4 1990 - 2000

The 1992/93 season was a disaster for the New Zealand kiwifruit industry. New Zealand and international kiwifruit volumes continued to grow, and problems came to a peak during this season as a result of various factors such as bad management and governance. The NZKMB got into serious difficulty with growers being over-paid resulting in massive debt. The NZKMB with strong grower support reacted decisively, and the debt was paid off over the ensuing 18 months.

Because of what had occurred, the industry put in place a three-stage review that incorporated major structural change.



Above:
NZKGI became
operational in July 1994

1. New Zealand Kiwifruit Growers Incorporated (NZKGI) became operational in July 1994.

2. Marketing and branding were reviewed which led to the creation of the Zespri brand, which was launched in the 1996/97 season, and the creation of Zespri as a separate marketing and sales organisation.

3. Corporatisation, collaborative marketing and the industry's operational structures were looked at and as a result, a report was presented to NZKGI. A referendum was held, and the structure of the industry altered (in 1996/97) to include: Zespri as a marketing company, a NZKGI Forum, and the NZKMB (which remained in existence).

The positive results of the three-stage review included the formation of the Zespri business, the establishment of collaborative marketing, and a more efficient on-shore operational structure. The three-stage review also incorporated 12-month supply, new varieties and plant breeding.

It was in 1997 that Zespri Gold was launched on a commercial basis and was the first time there was an alternate successful variety to the Hayward. Furthermore, the three-stage review formed the basis of today's kiwifruit industry, and the way in which it operates.



1.5 THE EARLY 2000s

April 1, 2000 saw the launch of the Zespri Group Ltd. – Zespri was officially corporatised. All growers at that time become shareholders in the Zespri Group Ltd, with the number of shares equivalent to the number of trays produced by growers. The following year saw turmoil within the Apple and Pear Board, which was taken over and subsequently deregulated. The kiwifruit industry structure was different in that only growers could have shares.

In 2001, a change to kiwifruit legislation occurred. A voting cap was introduced to ensure growers retained control of the industry. The maximum number of votes a grower could have was based on production and hence a direct link between production and voting rights was established. No significant further review of the kiwifruit industry has been held until the Kiwifruit Industry Strategy Project (KISP) that was launched in 2014.



1.6 2010 ONWARDS AND THE ESTABLISHMENT OF KISP

In 2014, the Kiwifruit Industry Strategy Project (KISP) was established with the aim of developing a strategy to achieve the industry's long-term market, strategic and financial goals for the benefit of New Zealand's kiwifruit growers.

To help shape the core KISP principles and guidelines, the Industry Advisory Council (IAC) appointed a working group made up from the three corners of the industry structure – growers, postharvest and Zespri. The KISP project began by establishing a broadly agreed set of key principles to guide industry discussion and decision-making when agreeing to a long-term strategy for the New Zealand kiwifruit industry.

These Key Principles Included:

KISP Framework

- The New Zealand kiwifruit industry must act responsibly and ethically on all economic, sustainability, environmental, social and regulatory issues to the benefit of New Zealand kiwifruit growers and the wider New Zealand community.



Single Point of Entry (SPE)

- The Single Point of Entry is retained and enhanced to maximise its performance for New Zealand kiwifruit growers.

Industry Governance

- Given the increasingly competitive international market, Zespri governance must meet world-best practice standards so that it delivers on its purpose.
- Effective leadership and governance of all industry structures must be supported by effective New Zealand kiwifruit grower control, representation and consultation.

Zespri Ownership

- New Zealand kiwifruit growers must own and control Zespri and be the main beneficiaries of Zespri performance.

Marketing

- Zespri's purpose is to be the "best in class" international branded kiwifruit sales and marketing organisation to ensure a sustainable New Zealand kiwifruit industry that maximises New Zealand kiwifruit grower returns.

- Zespri-branded kiwifruit is the best available kiwifruit around the world 12 months of the year for the overall benefit of New Zealand kiwifruit growers.
- The New Zealand kiwifruit industry must have a process to evaluate and implement genuine innovative commercial and marketing ideas, including collaborative marketing, that are aligned to Zespri's global marketing strategy and for the long-term benefit of New Zealand kiwifruit growers.

Supply Chain Effectiveness

- The New Zealand kiwifruit industry must have an efficient, competitive and responsive onshore postharvest sector that is aligned with the industry strategy, offering grower choice that is integrated into an efficient global supply chain. The New Zealand kiwifruit industry must have a world-class global supply chain from orchard to consumer.

Innovation

- To maximise the New Zealand kiwifruit industry's global competitive advantage, the New Zealand kiwifruit industry must continue to develop and implement a world-class and sustainable R&D programme.
- As an integral part of the SPE, the New Zealand kiwifruit industry must have the ability to develop, own, licence, control and maximise the value generated from the world's leading portfolio of kiwifruit Plant Variety Right varieties.

Funding

- Zespri is funded and remunerated appropriately to ensure it can deliver the full scope of its responsibilities.

KISP Principles Established

In a referendum held in March 2015, New Zealand kiwifruit growers turned out in record numbers to vote on the proposed KISP Principles developed by the KISP working group. Two thirds of New Zealand growers representing 80% of production voted in the Kiwifruit Industry Strategy Project referendum. 91% of growers who voted supported the ten propositions.

The key results in the referendum were:

- 98% of growers supporting the industry's Single Point of Entry structure
- 92% of growers supporting the implementation of a cap on Zespri share-holding
- 91% of growers supporting a change to how Zespri is funded to maximise returns to New Zealand growers
- 94% of growers supporting changes to their industry representation to ensure they determine grower equity decisions about grower payments

Following the referendum, the KISP group asked the Ministry for Primary Industries to revise the Kiwifruit Regulations to allow implementation of the KISP recommendations. MPI issued a public consultation paper in early 2016 and a revision of the Kiwifruit Regulations was announced in August 2016.

Amendment of Kiwifruit Regulations

In July 2017, an amendment was made to the Kiwifruit Export Regulations which resulted from growers requests in the 2015 KISP Referendum. The revised regulations address three main areas:

- Shareholder alignment;
- Zespri's core business, and;
- The governance and funding of the regulator Kiwifruit New Zealand (KNZ).

The regulations enabled Zespri to make changes to its constitution to allow for greater alignment between growers and shareholders. The regulations also expanded the definition of core business which is expected to provide stability to Zespri as the industry grows, maximizing the wealth of New Zealand kiwifruit growers. The regulations have made significant changes to the governance and funding of KNZ and while growers no longer have a majority on the KNZ Board, independent expertise has been made available. As supported by the KISP referendum, KNZ also have greater flexibility in funding their operations but also enhanced reporting requirements.

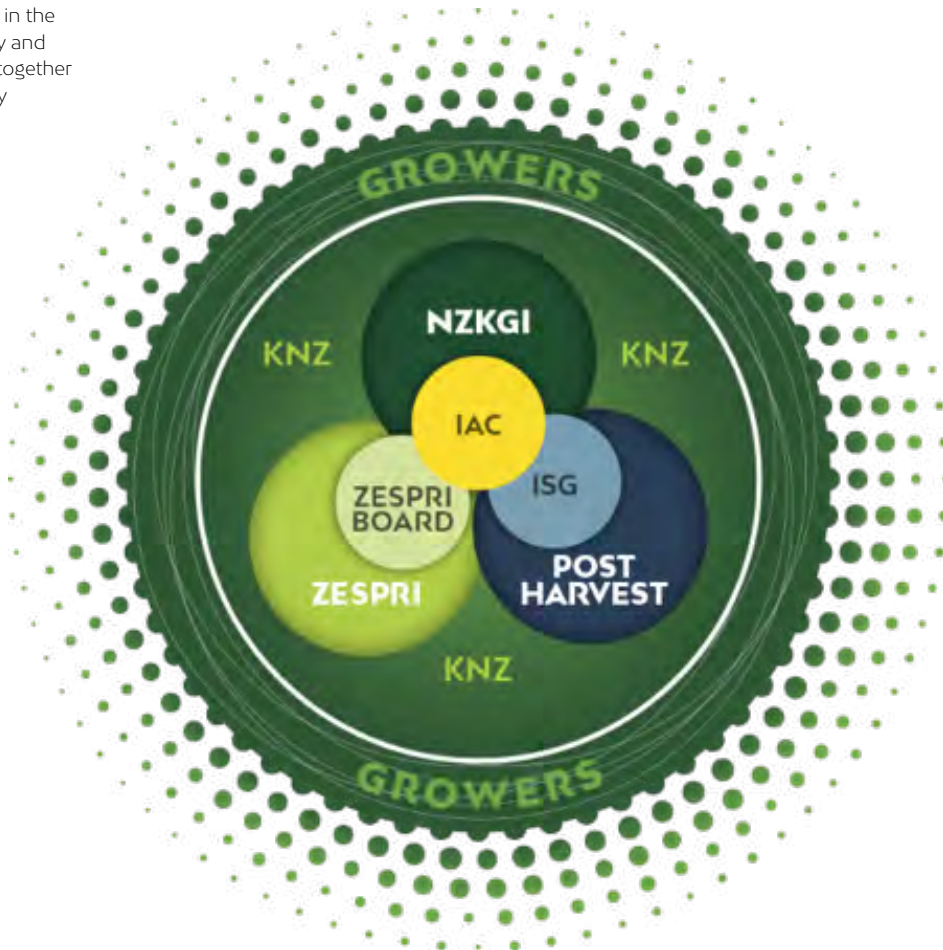
Changes for Zespri Shareholders

In March 2018, more than 75% of Zespri Shareholders voted to strengthen grower ownership and control of Zespri. The new constitution introduced dividend restrictions on shareholders who no longer grow kiwifruit and a share cap with a maximum shareholding of four shares for each tray of production. Further, to improve alignment between growers and Zespri, a targeted share issue and buyback programme began in September 2018. The share issue and buyback programme is based on an independent valuation and targets a share issue to unshared and under-shared growers, and a buy-back offer to non-producers and over-shared shareholders. More information about KISP can be read on the website. www.kisp.co.nz

1.7 KEY ORGANISATIONS

Right:

This diagram shows the different groups in the kiwifruit industry and how they work together to make industry decisions



Zespri International Limited (Zespri)

Zespri is a limited liability company, owned by past and present New Zealand kiwifruit growers, which in addition to its role as the single desk marketer also provides logistics services and research and development management for the kiwifruit industry.



Kiwifruit Vine Health (KVH)

KVH is a biosecurity organisation, established in 2010 to lead the response to the Psa incursion. Since 2012, KVH has been the organisation responsible for managing all biosecurity readiness, response, and operations on behalf of the kiwifruit industry. KVH works collaboratively with growers, Zespri, NZKGI, the postharvest and associated industries, and Government. A key research and development objective for KVH is to jointly lead (with Zespri), a world class research and development programme that continually seeks to identify ways to best manage all biosecurity risks to New Zealand's kiwifruit industry.



New Zealand Kiwifruit Growers Incorporated (NZKGI)

NZKGI was formed following the downturn in the kiwifruit industry in 1994 to give growers their own organisation to develop a secure and stable kiwifruit industry. NZKGI represents kiwifruit growers and protects their political and commercial interests. Key roles include; safeguarding the Single Point of Entry (SPE), supporting grower well-being and welfare, consulting with growers on industry initiatives and reporting on Zespri's performance, with a bottom line aim to increase growers' returns.



Plant & Food Research

Plant & Food Research is a New Zealand-based science company that is a Government owned Crown Research institute. Approximately 100 of the 900 people employed by Plant & Food Research carry out 60% of the kiwifruit industry's research. Kiwifruit has a broad research programme which covers new cultivar development, supply chain and consumer added-value. Plant & Food Research have a site in Te Puke that is home to the largest kiwifruit breeding population outside of China.



Māori Kiwifruit Growers Incorporated

The Māori Kiwifruit Growers Forum Incorporated has been created to advocate for the interests of Māori kiwifruit growers and is a partnership between Māori kiwifruit growers, Te Puni Kokiri and Zespri. It aims to improve information dissemination and to ultimately assist and help improve net returns for Māori growers. The Forum is governed by 12 elected Members who represent the Māori communities involved in the kiwifruit industry.



Kiwifruit New Zealand (KNZ)

The majority of the New Zealand kiwifruit sector is focussed on the export of fresh fruit. The export of New Zealand kiwifruit is regulated through the Kiwifruit Export Regulations 1999. These regulations permit a single marketer to export and market the majority of New Zealand grown kiwifruit outside of Australasia. This position is called the 'Single Point of Entry' (SPE). The Kiwifruit Export Regulations are monitored and enforced by Kiwifruit New Zealand (KNZ). KNZ is the kiwifruit industry's regulator and gives Zespri the mandate to be the vehicle of the SPE. KNZ also have the mandate to allow other exporters to trade New Zealand grown kiwifruit outside of Australasia and do so on a case-by-case basis in collaboration with Zespri. This is dependent on the value those exporters can derive for growers over and above what is achieved by Zespri.

Industry Advisory Council (IAC)

The Industry Advisory Council aims to specifically cater to the financial, tax and government related aspects of the kiwifruit industry. IAC manage issues relating to the Supply Contract, decisions relating to the treatment of and payment for fruit and matters with material financial implications for growers.

The Industry Supply Group (ISG)

The Industry Supply Group manages decisions relating to the supply chain process. Specifically, they monitor quality assurance and rules around labelling, packaging and the export of kiwifruit. ISG also help in the negotiation of industry wide commercial contracts relating to supply chain activities.

Zespri Board

The Zespri Board provides strategic direction for the company and ensure it meets all regulatory requirements.

1.7.1 Levy-Funded Organisations

KVH

KVH is funded through two levies, a National Pest Management levy for the management of Psa which is set at 0.2c per tray and a levy for biosecurity readiness and response activities which is set at 1.4 cents per tray for all varieties. KVH's levy is renewed annually at their AGM.

NZKGI

A grower levy is used to fund the operations of NZKGI. In 2017, NZKGI were given a mandate by kiwifruit growers to work on their behalf for the next six-year kiwifruit levy cycle. 85% of growers participating in the referendum voted to continue the levy. The levy is set at 1c/tray (\$0.0028/kg) and can only be increased by vote at a NZKGI AGM or Special General Meeting.



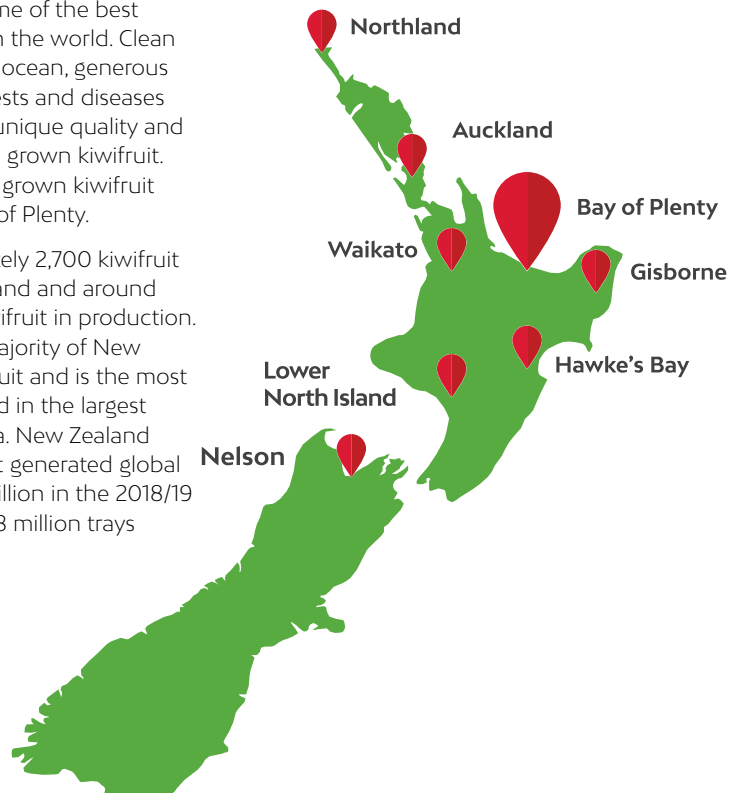
1.8 NEW ZEALAND'S COMPETITIVE POSITION GLOBALLY

Above:
Birds eye view of kiwifruit
and avocado orchards in
the Bay of Plenty
(Bevan Jelly, NZ Avocado)

Right:
Regional production of
kiwifruit in New Zealand

New Zealand has some of the best growing conditions in the world. Clean air, fertile soils, a cool ocean, generous climate, and fewer pests and diseases all contribute to the unique quality and taste of New Zealand grown kiwifruit. 80% of New Zealand grown kiwifruit comes from the Bay of Plenty.

There are approximately 2,700 kiwifruit growers in New Zealand and around 12,747 hectares of kiwifruit in production. Zespri markets the majority of New Zealand grown kiwifruit and is the most recognised fruit brand in the largest cities in Greater China. New Zealand grown Zespri kiwifruit generated global sales revenue of 3.1 billion in the 2018/19 season and sold 148.8 million trays (3.55kg = 1 tray).



The return made by New Zealand kiwifruit export revenue in the 2018 year is significant in comparison to other fruit and vegetables. Kiwifruit was 1.9 billion whilst total horticultural export revenue was \$5.5 billion. Kiwifruit represents 34% of the total horticultural export revenue. Although New Zealand grown kiwifruit export returns are large in comparison to other horticultural products, kiwifruit is a small fruit category in a global context. While the world total production of kiwifruit has increased by over 50% during the last decade, the kiwifruit remains a niche fruit, taking up an estimated 0.22% of the global fruit bowl, which is dominated by apples, oranges, and bananas.

Right:
Number of hectares of
kiwifruit produced in each
region

Regional production of kiwifruit by hectare in the 2018/2019 year	
Northland	463
Auckland	494
BOP	10,228
Waikato	554
Poverty Bay	300
Hawke's Bay	205
Lower North Island	78
South Island	426

New Zealand kiwifruit growers compete against other kiwifruit growers from other countries and other fruits available in the market at the same time as New Zealand kiwifruit. New Zealand kiwifruit faces competition in all markets from a wide range of fresh fruit and consumer products. Many other producers attempt to capture market space using price while the New Zealand strategy is more about adding value through product taste, quality and consistency, branding, promotional support and reliable supply.

Right:
Picture of fruit stand
representing the
competition New Zealand
faces in the market place



NOTES

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